FOREIGN POLICY REPORTS

February 15, 1939

Foreign Exchange Control in Latin America

BY HERBERT M. BRATTER

PUBLISHED TWICE A MONTH BY THE

Foreign Policy Association, Incorporated

EIGHT WEST FORTIETH STREET, NEW YORK, N. Y.

VOLUME XIV NUMBER 23 *25¢ a copy* *$5.00 a year*

Foreign Exchange Control in Latin America

BY HERBERT M. BRATTER

with the aid of the Research Staff of the Foreign Policy Association

Mr. Bratter was formerly with the United States Department of Commerce and the Treasury.

This report has been prepared for the Twelfth International Studies Conference, under the auspices of the American Coordinating Committee.

FOREIGN exchange control is only one of many manifestations of the economic crisis which has gripped the world since 1929. When exchange control is absent, and a country's economic condition begins to deteriorate, the foreign exchange value of its monetary unit tends to weaken. The usual result of this situation is an outflow of gold, exhaustion of foreign-exchange resources, increased tariffs, default on debts, currency depreciation, import quotas and, finally, exchange control. Exchange and import controls attempt to maintain the nominal value of the monetary unit, forcing adjustments in the country's import trade.[1]

The term "exchange control," as used in this study, is not confined to attempts to control the *rate* of exchange. Rather it is here used to describe those various systems by which governments regulate the *volume* of transactions at the "official" rate, requiring merchants to sell the proceeds of their exports to the authorities at this rate. Exchange control frequently has as its counterpart the requirement that importers secure prior permission for the purchase of foreign exchange. In effect, control of the volume of foreign-exchange transactions with foreign countries amounts to determination of the value or volume of goods and services exchanged with foreign countries. Exchange control accomplishes the purpose of a protective tariff or an import embargo. And it has the further "advantage" that it often operates secretly as to details.

Exchange control is thus a major obstacle in the path of those striving to restore freedom of international trade. Its elimination or amelioration poses Herculean problems, for it involves correction of the conditions which originally produced exchange control. Those conditions are due in no small part to the United States tariff of 1930. As the League of Nations economic and financial committees ascertained in 1938, exchange control is itself a symptom of deep-seated troubles. Only by remedying these troubles can it be swept away. While exchange control has been adopted as a part of national economic control, the former, far from providing a remedy, perpetuates and in certain respects accentuates the latter.[2]

State intervention in the exchange market in one form or another has been in existence for a long time. But the extreme forms—apart from the World War period—which now prevail in many countries date from the advent of the financial crisis of 1931.[3] In the summer of that year, various European countries initiated control of foreign-exchange transactions. By July 1932 Japan, and by March 1933 the United States, joined the long list of countries subjecting such business to restrictions. (In the United States the restrictions were gradually relaxed until they were completely removed in November 1934.)

As the depression deepened, many Latin American countries joined the movement toward exchange control. The control measures taken by Latin American states were not dictated by the course of sterling, although in many instances they followed it. They were dictated primarily by the pressure of the world depression on raw-material producing countries owing to the rapid decline of raw material prices; the slower fall in prices of manufactured imports; and the continuance of heavy foreign debt obligations. When European states adopted policies involving artificial exchange

1. The writer wishes to record his appreciation for the very valuable assistance rendered by Mr. James C. Corliss of the Finance Division of the U.S. Department of Commerce.

2. League of Nations, *Report on Exchange Control* (Geneva, 1938), p. 3. As listed by the Pan American Union there are seven classes of trade barriers on the American continent: absolute prohibitions, quotas or licenses, depreciated currencies, customs duties, multiple tariffs, exchange control, and clearing agreements. For a concise description, cf. *Eighth International Conference of American States, Lima, Peru, December 9, 1938, Special Handbook for Use of the Delegates* (Washington, Pan American Union, 1938), pp. 69-73.

3. Regarding the war and post-war exchange control, cf. "Exchange Control," *International Financial Conference, Brussels, 1920* (London, 1920), Paper No. 11.

FOREIGN POLICY REPORTS, VOLUME XIV, NUMBER 23, FEBRUARY 15, 1939

Published twice a month by the FOREIGN POLICY ASSOCIATION, Incorporated, 8 West 40th Street, New York, N. Y., U.S.A. RAYMOND LESLIE BUELL, *President;* WILLIAM T. STONE, *Vice President* and *Washington representative;* VERA MICHELES DEAN, *Editor* and *Research Director;* HELEN TERRY, *Assistant Editor. Research Associates:* T. A. BISSON, JAMES FREDERICK GREEN, FREDERICK T. MERRILL, HELEN H. MOORHEAD, DAVID H. POPPER, ONA K. D. RINGWOOD, PAUL B. TAYLOR, CHARLES A. THOMSON, JOHN C. DEWILDE. Subscription Rates: $5.00 a year; to F.P.A. members $3.00; single copies 25 cents. Entered as second-class matter on March 31, 1931 at the post office at New York, N. Y., under the Act of March 3, 1879.

rates, blocked currencies, bilateral clearing agreements and the like, Latin American countries were naturally faced with a growing stringency of foreign exchange. The increasing efforts of European countries to attain agrarian self-sufficiency and imperial or colonial preference stimulated Latin American efforts to achieve industrialization and agricultural diversification.[4] In these countries, however, exchange controls have usually been much less rigid than in Europe.

Another important factor contributing to the development of exchange control in Latin America was the cessation of foreign loans. Had such loans to Latin America continued at their pre-depression rate, exchange control might not have proved necessary. This does not imply that such pre-depression loans were necessarily wise. It is doubtless also true that cessation of American loans to Latin American borrowers at an earlier date would have been an important contributory factor making for earlier development of exchange control in Latin America. A third factor bearing on the development of exchange control was the decline in the volume of Latin America's exports during the depression. These various factors were all interrelated, and to decide which caused which is something like deciding "which came first, the chicken or the egg."

Latin American control has in many cases involved establishment of an official rate at which exchange is supplied for certain purposes, but accompanied by toleration of other foreign-exchange transactions. Such other transactions, involving a discount on the local currency, are permitted for a variety of purposes for which exchange at the official rate is not available. Capital movements, for example, are sometimes not precluded by the controls, whereas in Europe such movements are strictly controlled.[5]

The principal instrument used by Latin American countries which have introduced exchange control has been discrimination between various classes of imports. For this purpose in several countries all imports are subject to exchange or import permit. Exporters usually must sell either all or a large part of the foreign exchange derived from their trade to the local exchange-control authorities at officially prescribed rates. Portions of this foreign exchange are then allotted by the authorities to importers of essential commodities. Such foreign exchange as need not be turned over to the authorities may usually be sold by Latin American exporters outside the official market and, except where the control is rigid, importers of non-essential goods are permitted to buy such foreign exchange at the best rate obtainable. Naturally, this involves paying to the seller of the exchange a premium above the official quotation.

In some Latin American countries the "free market" is available for remittance of funds to pay debts owed abroad and, as mentioned above, for capital movements. The amount of exchange, however, is subject to sudden restrictions when the prices of raw materials exported by the country concerned shrink, or when crops fail. Thus, following the recession of 1937, restrictions in Latin America were generally tightened. In other words, experience with Latin American exchange control leads one to expect alternate relaxation and tightening, and sudden changes of policy.

The original and immediate purposes of exchange control in Latin America, as elsewhere, were to prevent or minimize depreciation of the home currency, and to conserve the gold reserves or credits resulting from export trade — either to meet the nation's fixed obligations abroad, or to confine imports to essential goods and services. Another important purpose was to insulate the home price-level from sharp fluctuations induced by conditions abroad. In some countries the main purpose of such regulation was to prevent speculation and the flight of capital.[6] Whatever its original objective, exchange control is essentially a powerful instrument for foreign-trade and general economic control. Such general control gradually becomes its real purpose, and sooner or later the nature and direction of international commercial transactions tend to be determined by political officials and their bureaucratic assistants. Thus, foreign-exchange control, although originally adopted to meet presumably temporary conditions, has tended to become a fixed feature of national policy in various states. In the Latin American raw-material producing countries which depend on overseas markets and must import a large portion of their manufactured goods, exchange control has proved far more significant than it would be in the United States, only a fraction of whose trade is international in character.

4. Address of Dr. Alexander V. Dye, Director of the Bureau of Foreign and Domestic Commerce, at Charlottesville, Va., July 7, 1938.

5. League of Nations, *Report on Exchange Control*, cited, pp. 12-13.

6. U.S. Bureau of Foreign and Domestic Commerce, "Foreign Tariffs and Commercial Policies during 1932," *Trade Information Bulletin*, No. 812 (Washington, 1933), p. 4. For a list of reasons officially given for exchange control, cf. Charles R. Whittlesey, "Exchange Control," *The American Economic Review*, December 1932, p. 599. Of the various arguments he lists, Professor Whittlesey analyzes only those which "possess some logical validity."

PRESENT STATUS IN LATIN AMERICA[7]

The exchange-control systems of Latin America are varied and complicated. Not all of the twenty southern republics have resorted to control of foreign-exchange transactions. Nine of them—Cuba, the Dominican Republic, Ecuador, El Salvador, Guatemala, Haiti, Mexico, Panama and Peru—do not have it at the present time. Ecuador, although it uses import licensing and has experimented with exchange control, no longer strictly regulates exchange transactions. Import licensing and exchange control, however, are but different approaches to the same objective. Sometimes they are employed simultaneously. Import licensing in one form or another, as the table on pages 280-81 shows, is now in force in seven Latin American countries. In only two of these seven—the Dominican Republic and Ecuador—is exchange control not simultaneously in force.[8]

The operation of import licensing is well demonstrated by Ecuador, which introduced import licensing on August 15, 1936, tightening it up on May 26, 1938. For all imports prior licenses are now required, and goods arriving without such permit may be confiscated. The avowed purpose of this system is to achieve an equilibrium in the balance of international payments, in accordance with the supply of foreign exchange derived from the country's visible and invisible exports. Imports may not exceed exports, while the volume of imports must allow a margin for payment of earlier imports and the requirements of government and public institutions. An effort is made to favor countries which impose no restrictions on Ecuadorean products, and with which Ecuador has a favorable balance of payments.[9]

While exchange control in Latin America does not lend itself to simple classifications, the accompanying table attempts to summarize its main features. Most of the following observations are based on this table.

Of the nine countries which do not employ exchange control, one—Cuba—has nominal control. Of the eleven countries—Argentina, Bolivia, Brazil, Chile, Colombia, Costa Rica, Honduras, Nicaragua, Paraguay, Uruguay and Venezuela—now actively operating exchange control, nine instituted it before 1933. Honduras introduced control in 1934, Venezuela in 1936. Latin American exchange-control systems are frequently amended. All of the controlled-exchange countries have introduced one or more major changes in their systems since control was established. As for minor provisions, the systems of Latin America are being altered with disconcerting frequency. In Bolivia, to cite an extreme example, during three months of 1938 three major modifications of the system were announced,[10] and minor changes are constantly being reported.

In a country employing exchange control the expression "free market" is used to describe that portion of the foreign exchange market in which the rate of exchange is, in theory, permitted to fluctuate in accordance with supply and demand, and in which there is no restriction on the volume of transactions. In practice, however, the "free market" usually is not free of official interference in one form or another. Among the eleven controlled-exchange countries, only one—Venezuela—has regularly permitted a "free market" to exist without any government interference or trade regulation. In Costa Rica, however, the government's interference with the "free market" is only nominal. In five of the eleven, no "free market" exists even nominally. In only three Latin American countries—Bolivia, Colombia and Nicaragua—are importers able to evade control regulations by conducting business through an illegal or "black" market.

The regular practice of exchange-control countries is to require the delivery to the authorities, at arbitrary rates, of all or certain percentages of the foreign-exchange proceeds of commodity exports. Usually there are various exceptions, so that it is generally impossible to state with reference to any one country just what proportion of exporters' exchange must be handed over.

In countries employing control, the requirements of importers are filled according to certain general criteria, as well as the judgment of the control's personnel. That there is no favoritism in apportioning available exchange among firms demanding it would probably be difficult to prove in many countries.

In exercising exchange control even where no import licensing system exists, the authorities frequently endeavor to determine in a general way the composition and direction of foreign trade. In several countries exports of particular commodities, or general exports to selected countries—for

7. Cf. table, pp. 280-81.

8. Ecuador's system of exchange control, established in July 1936, was abolished the following year. All rice export drafts, however, must be sold to the Central Bank to supply it with foreign exchange. To this limited extent it may be said that Ecuador still employs exchange control.

9. U.S. Department of Commerce, *Commerce Reports*, September 3, 1938; and Division of Foreign Tariffs, F. T. No. 438 of June 10, 1938.

10. On March 7, April 9, and June 11, 1938. The best official sources of information on changes in the foreign exchange situation are the three series of financial notes issued twice monthly by the Finance Division of the U.S. Bureau of Foreign and Domestic Commerce.

example, contiguous countries—are granted partial or complete exemption from the requirement that the proceeds be sold to the authorities at the official exchange rate. Import control through exchange control is almost universal in the eleven countries concerned. In periods of exchange scarcity, the authorities often adopt policies which are tantamount to denial of exchange to importers of commodities regarded as unessential.

Four countries—Argentina, Chile, Costa Rica and Uruguay—openly use exchange control to direct trade along bilateral lines, and at least two others—Brazil and Colombia—accomplish the same purpose by means of special clearing agreements, other than such agreements with Germany. Clearing arrangements with Germany exist in Argentina, Brazil,[11] Chile, Colombia[12] and Uruguay.

Import licensing, in some cases of only limited scope, is in force in seven Latin American countries—Argentina, Chile, Colombia, the Dominican Republic, Ecuador, Uruguay and Venezuela. Of these, as noted above, the Dominican Republic and Ecuador do not control exchange. In two of the control countries—Brazil and Costa Rica—American exporters are among those enjoying better than average treatment under the foreign exchange restrictions, German trade under clearing agreements excepted. In three countries—Argentina, Chile and Uruguay—American exporters are at a disadvantage as compared with most other foreign nationals, due to the failure of the United States to purchase as much as it would like to sell there, or similar handicaps.

In most countries prompt payment of current commercial obligations is made, provided any required import or exchange permits have been issued. At present delay may be expected in Bolivia, while in Brazil and Chile delay in receiving payment on commercial obligations is a certainty.

The foregoing summary brings out the complexity of exchange-control systems as between different countries. Complexity often exists also as to detailed operation within a given system. Thus Bolivia, on September 30, 1938, lifted restrictions it had imposed on certain types of goods in September 1936 and November 1937, although the change proved largely meaningless because of shortage of foreign-exchange balances. On October 14 the government elaborated the procedure of application for permits to import certain specified commodities, so as to establish greater control over essential imports and thereby stricter control over prices. On October 31, by decree, the official rate of exchange was made contingent on certain specified price levels for lead and antimony in England.[13] Such complexities make trade with Latin America difficult, and tend to retard it.

CLEARING AGREEMENTS

One aspect of exchange-control and trade restrictions has been the development since 1931 of "clearing agreements." These agreements are bilateral arrangements whereby part or all of the commodity trade between two countries is kept balanced as to value, so that import and export transactions are canceled without the international transfer of funds. Latin American countries have entered into few clearing agreements in the strict meaning of the term. Chile had been "compelled to accept such agreements with eleven European countries . . . for the sole reason that this was the only means of obtaining the right to export to these countries."[14] Chile's clearing agreement with Brazil, on the other hand, was concluded as a means of rectifying the consequences of exchange control in both countries.

Closely akin to clearing agreements are certain exchange understandings between pairs of countries. Argentina has made a series of such agreements involving trade bilateralism with Great Britain, Belgium, The Netherlands, Spain, Switzerland and Germany. In its agreements with the first four, Argentina undertook to provide its importers with exchange on these countries—to the extent of their respective purchases of Argentine products —not only for commercial purposes, but also for service on loans and investments. It was provided, however, that from the foreign exchange accruing to Argentina there would first be deducted a "reasonable sum" annually for service of Argentina's debt in other countries.[15]

THE ARGENTINE SYSTEM

For various reasons Argentine exchange control has special interest for Americans. Argentina has hitherto been among the best customers of the United States in Latin America, and there are larger American investments in Argentina than in

11. For a short description of how the control operates in Brazil, cf. "The Future of Brazilian Exchange," *The South American Journal* (London), March 13, 1937, pp. 273-74.
12. Regarding the 1937 exchange control decrees of Colombia, cf. "The Exchange Situation in Colombia," *Colombia Magazine* (New York), January 1938, pp. 18-19.
13. U.S. Department of Commerce, *Commerce Reports*, December 3, 1938, p. 1074. Cf. also Whittlesey, "Exchange Control," cited, pp. 592-95.
14. Cf. League of Nations, *Enquiry into Clearing Agreements* (Geneva, 1935), pp. 152-54. The statement of the government of Chile here quoted is doubtless correct, although the clearing agreement of May 18, 1933 with Sweden was made solely to liquidate Swedish balances frozen in Chile.
15. U.S. Department of Commerce, *World Economic Review* (1934), pp. 221-22.

any other Latin American country except Chile.

Argentine exchange control was initiated in October 1931, at the height of the world depression, and has been operated to protect the interests of foreign holders of central government bonds. In the beginning, control of all foreign exchange transactions by the Exchange Control Commission was sought as to both rate and amount, exchange being allotted first to government debt services, and second to essential imports.[16] Since large quantities of foreign-owned commercial funds were left stranded or blocked in Argentina under this early form of control, a bootleg market developed to get part of such funds out of Argentina even at a considerable loss. It thus became impossible for the government to control all international movements of funds, and the system was consequently altered.[17] A dual exchange market was created, and the "prior permit" system for the purchase of foreign exchange was introduced in November 1933.

This system was intended to avoid further accumulation of blocked pesos, which had occurred under the exchange control established in 1931. An importer, before making an importation, now applies for a permit to obtain exchange at the "official rate." Without such permit, he can obtain exchange only in the "free market" at the higher rate there prevailing, such rate—according to the law—having to be at least 10 per cent higher than the "official rate." Since December 1, 1938, even the importer using the "free market" must obtain a prior exchange permit.[18] While the "official" rate is altered only as the government may decree, the "free market" rate for foreign remittances fluctuates with supply and demand, and is viewed by the authorities as "a safety valve for the official market."

The 10 per cent differential mentioned above is effected by means of a tax imposed whenever the difference between "free market" and "official" exchange rates is less than 10 per cent—the tax being of such size as to make a difference of 10 per cent between the cost of doing business through the free and the official markets. At this writing the actual difference in exchange rates approximates 20 per cent, so that the tax is not being collected.

The provision for a differential of at least 10 per cent between the cost of "free market" and "official" exchange to Argentine importers of goods is regarded by Americans as a discrimination in favor of British and other nationals, since importers of British and other goods are sold exchange at the lower "official" rate. Although the Argentine authorities agree that this differential is an obstacle which retards imports from the United States, they claim that it is not discriminatory since it applies to imports from all nations which buy less from Argentina than they sell. The United States falls in this category: during the year 1938 the value of United States exports to Argentina was $86,772,000, and that of imports from Argentina only $40,707,000.

Foreign exchange derived from the shipment of Argentina's main export commodities must be delivered at fixed rates to the authorities, who sell it to Argentine importers and others at rates determined by the Central Bank, subject always to preferred claims in connection with the government's debt. In controlling the disposal of the foreign-exchange proceeds of exports, the Argentine government since December 15, 1933 has excepted exchange obtained from capital investments of foreign origin, and commodities not regularly exported, exported in small quantities, or exported to adjoining countries. Moreover, drafts arising from exports of a few commodities have at times been granted preferential official buying rates to favor these exports. It may therefore be assumed that Argentina fosters home industries by paying a higher rate for foreign exchange proceeds of their exports.

Statistics for 1937 reveal how important a part the "official" market has been playing in Argentina's international transactions.[19] Approximately one-fourth of the exchange transactions have been passing through the free market, while three-fourths have been controlled by the government. Moreover, as elsewhere noted, the control occasionally has operated in the free market, chiefly to check depreciation or cause appreciation of the international value of the Argentine peso, or

16. From the suspension of the gold standard in 1931 until March 4, 1933 the peso was pegged to the U.S. gold dollar, and thereafter to the gold franc. In January 1934 it was pegged to the pound sterling at 15 pesos to the pound, a ratio since increased. Fluctuations in the pound affect the dollar value of Argentine exchange.

17. Cf. *Federal Reserve Bulletin*, August 1938, containing annual report of the Central Bank of the Argentine Republic for 1937; also Morgan, Stanley & Co. et al., *Prospectus of $25,000,000 Argentine Republic Ten-Year Sinking Fund External Loan 4½% Bonds*, November 3, 1938, and supplement thereto dated November 25, 1938.

18. For procedure which must be followed, cf. U.S. Department of Commerce, *Commerce Reports*, December 3, 1938, p. 1078; also *Latin American Financial Notes*, No. 256, November 29, 1938.

19. Details in *Federal Reserve Bulletin*, August 1938, p. 666. For other references to Argentine exchange control, cf. *Review of the River Plate* (Buenos Aires), March 11, 1938, pp. 11-19, containing an article based on the 1937 report of the Central Bank; "The Future of Argentine Exchange," *South American Journal*, April 23, 1938, pp. 417-18; José A. Vido, "El Control de los Cambios en la República Argentina," *Revista de Ciencias Económicas* (Buenos Aires), April 1936, pp. 283-97; *Ibid.*, June 1936, pp. 485-502; October 1936, pp. 891-96; December 1936, pp. 1051-61.

to mitigate fluctuations produced by the investment of foreign capital ("hot money"). The reserves of gold and foreign exchange accumulated through official purchases in the free market of inflowing foreign capital in late 1936 were drawn upon in the latter part of 1937, when the demand for foreign exchange exceeded the supply and the peso, in consequence, tended to depreciate in international exchange value. In other words, the control of foreign exchange in Argentina, as originally intended, has built up a fund for stabilization of the exchange market and sterilization of refugee capital. This fund is a counterpart of similar, but specially created, funds employed for the same purpose by the United States, the United Kingdom, France and other countries. With the suspension of the gold standard and increased government regulation of international exchange, the creation of such funds as instruments of official policy has been inevitable.[20]

As exchange control has operated in Argentina through November 1938, the country's international economic transactions fall into two categories: (1) those involving payment through the controlled foreign-exchange market and (2) those passing through the "free market." For each group, a separate balance of international payments may be computed.[21] As to the first group the government, by requiring surrender of exporters' exchange at the official rate, i.e., at less than the free rate, influences the return yielded by exports, and thus tends to influence the national economy and price-level. Through its resulting monopoly of three-quarters of the foreign exchange produced by the country, the government maintains a strong influence over the volume as well as the nature of imports.[22]

According to the Argentine Central Bank, the nature and sphere of influence of the "official" market and the "free market" are substantially different. Whereas the "official" market plays a decisive part in establishing internal commodity prices, the "free market" has not the same economic significance. The latter's influence on the home price-level for non-luxury items has been negligible. None the less, the "free market" has played an important rôle, for to it have been diverted—through the withholding of "prior exchange permits"—those imports which the authorities have not wished to favor.

20. For several articles on the technique of exchange control, insulation, etc., as practiced in Europe and the United States, cf. *The Banker* (London), October 1938; cf. also Midland Bank (London), *Monthly Review*, October-November 1938.

21. Cf. *Federal Reserve Bulletin*, August 1938, pp. 667-68.

22. Broadening of the prior-permit system introduced on December 1, 1938 now gives the government even wider economic control.

Apart from volume, the government employs exchange control to determine the direction of trade. It has been Argentina's policy to favor imports from those countries which buy most from Argentina. Their purchases of Argentine goods are taken into account in granting exchange permits covering Argentine commodity imports. Exchange control has also been used for special purposes. During 1936 limited special concessions were made for remittances by railways operating in Argentina at 15.75 pesos to the pound, in exchange for lower freight rates on corn. Thus, Argentine exchange control has been used to strengthen bilateral, rather than triangular trade—a development not welcomed in Washington.

Before 1935 the United States generally bought less from Argentina than it sold there. In 1935, 1936 and 1937 American trade with Argentina produced an "unfavorable" balance for the United States. Exchange for American imports at the "official" rate, however, has not been allotted freely by Argentina. In 1935, 1936 and 1937, respectively, approximately 35 per cent, 46 per cent and 60 per cent of imports from the United States received exchange at the "official" rate. In 1938 the percentage for imports of American goods is estimated to have declined, because Argentina's trade with this country has turned "adverse." For Argentina's total commodity imports from all countries, about 90 per cent of the exchange is granted at the "official" rate, and only about 10 per cent passes through the "free market."

From 1932 to 1937, inclusive, the exchange control authorities allocated approximately 8,700,000,000 pesos of foreign exchange. Of this sum, about 5,500,000,000 pesos was allocated to merchandise imports, 1,500,000,000 to government remittances, about 1,000,000,000 to financial services, chiefly remittances by railways and public utilities, 260,000,000 to private remittances prior to September 1934, and the rest to miscellaneous purposes including chiefly sales of exchange in the "free market."

Under the Argentine system, as has been noted, a special Exchange Profits Fund has been set up.[23] Exchange profits are devoted to subsidizing certain export interests. A separate Foreign Currencies Fund has been established to limit seasonal or other influences on the peso's foreign exchange rate.

THE ROCA-RUNCIMAN CONVENTION

Of the bilateral arrangements mentioned above, the most important has been the Roca-Runciman convention, concluded by Argentina with Britain

23. For details, cf. Morgan, Stanley, *et al.*, *Prospectus*, cited, p. 24.

LATIN AMERICAN FOREIGN EXCHANGE AND IMPORT CONTROL SINCE 1930, WI

Country	Status of control of foreign exchange since 1930: *Never employed*	*No longer employed*	*Now in force*	Date control first was inaugurated	Date present **basic** system was inaugurated	"Free market" for commodity imports: *Permitted to function without government control*	*Controlled by government or Central Bank*	Black Market in existence for commodity imports	Per cen exchan proceed exports livered authorit at "offic rate"
Argentina	. . .	. . .	*	1931	1933	. . .	*	. . .	About 9c
Bolivia	. . .	. . .	*	1931[1]	1938	. . .	*	*	(V)
Brazil	. . .	. . .	*	1931	1937	. . .	. . .[7]	. . .	100
Chile	. . .	. . .	*	1931	1931	. . .	*	. . .	(V)
Colombia	. . .	. . .	*	1931	1937	. . .	. . .[7]	*	100
Costa Rica	.	. . .	*	1932	1932	. . .	* (N)	. . .	100
Cuba	*	. . .	(N)	. . .	. . .	*	. . .	. . .	. . .
Dominican Republic	*	. . .	. . .	. . .	. . .	*	. . .	. . .	. . .
Ecuador	. . .	*	. . .	1933	. . .	*	. . .	. . .	. . .
El Salvador	*	. . .	. . .	. . .	. . .	*	. . .	. . .	. . .
Guatemala	*	. . .	. . .	. . .	. . .	*	. . .	. . .	. . .
Haiti	*	. . .	. . .	. . .	. . .	*	. . .	. . .	. . .
Honduras	. . .	. . .	*	1934	1934	. . .	. . .[7]	. . .	100
Mexico	*	. . .	. . .	. . .	. . .	*	. . .	. . .	. . .
Nicaragua	. . .	. . .	*	1932	1938	. . .	. . .[8]	*	100
Panama	*	. . .	. . .	. . .	. . .	*	. . .	. . .	. . .
Paraguay	. . .	. . .	*	1932	1938	. . .	. . .	. . .	100
Peru	*	. . .	. . .	. . .	. . .	*	. . .	. . .	. . .
Uruguay	. . .	. . .	*	1932	1934	. . .	. . .[7, 8]	. . .	(V)
Venezuela	. . .	. . .	*	1936	1937	*	. . .	. . .	100

Asterisks (*) indicate the affirmative.
Dots (. . .) are merely to aid in reading the table.
1. Unofficially inaugurated.
2. With minor exceptions, which include exports to neighboring countries.
3. The government exchange office pays an attractive rate so that in practice most foreign exchange acquired by exporters i sold to it voluntarily.
4. Authorized. Status today unknown. Heretofore in practic only from 60 to 70 per cent has been required to be turned over
5. With certain exceptions.
6. With many exceptions.

in May 1933. This agreement provided, among other things, for the funding of blocked British peso balances, and exercised an important influence on the negotiation of similar agreements with other nationals. The Roca-Runciman convention specified that, whenever any system of exchange control was operative in Argentina, the full amount of sterling exchange arising from the sale of Argentine products in the United Kingdom should be made available for current Argentine remittances to the United Kingdom, after deducting a reasonable sum toward the payment of national or other Argentine public external debts payable in countries other than the United Kingdom. It did not obligate Argentina to service its foreign debt but, in practice, during periods of exchange control, the central government has meticulously done so.[24]

Upon its expiration in November 1936, the Roca-Runciman convention was replaced by a similar one, which is to remain in force through 1939. Under this new agreement Argentina continues the foreign exchange benefits conferred on British traders and bondholders in the earlier document, as well as previous tariff and other concessions.

By an agreement concluded in December 1933, American holders of blocked balances in Argentina received Argentine Treasury notes payable in New

24. The same cannot be said for other Argentine governmental entities.

ULAR REFERENCE TO COMMODITY TRADE, AND ITS STATUS AS OF FEBRUARY 1939

e control used to

ies ed or ne ns- nst	Favor trade with selected countries	Import licensing in force	United States exporters: In preferred position as compared with various other countries[12]	United States exporters: At disadvantage as compared with various other countries[12]	Promptness with which application for exchange is granted: Immediately	Promptness with which application for exchange is granted: After possible delay	Promptness with which application for exchange is granted: Delay certain	Debts to United States defaulted: Central government	Debts to United States defaulted: Other governments	Debts to United States defaulted: Commercial (currently delayed by exchange of control)
	*	*	...	*	*	...	...	...	*	...
	...	...	...	...	...	*	...	*	...13	*
	...9	...	*	...	...	...	*	*	*	...
	* 9	*	...	*	...	...	*	*	*	*
	...9	*	...	...	*	...	...	*	*	*
	*	...	*	...	*	...	...	*	...13	...
	...	...	...	...	*	...	...	*	*	...
	...	*	...	...	*	...	...	...	...13	...
	...	*	...	...	*	...	...	* 10	...13	...
	...	...	...	...	*	...	...	*	...13	...
	...	...	...	...	*	...	...	*	*	...
	...	...	...	...	*	...	...	...	...13	...
	...	...	...	...	*	...	...	...13	...13	...
	...	...	...	...	*	...	...	*	*	...
	...9	...	...	...	*	...	...	...13	...13	...
	...	...	...	...	*	...	...	*	*	...
	...	...	...	...	*	...	...	...13	...13	...
	...	...	...	...	*	...	...	*	*	...
	*	*	...	*	* 11	...	...	*	*	*
	...	*	...	...	*	...	...	...13	...13	...

7. There is no free market.
8. A "free market" exists for only such purposes as government approves.
9. Through clearing or compensation agreements.
10. Defaulted on debentures of International Match Company, a subsidiary of Kreuger and Toll Company.
11. Provided a permit has been granted.
12. German clearing agreements excepted.
13. No loans ever publicly offered here.
14. Applies to subsidized products only.
(N) = Nominally.
(V) = Varies.

York City in dollars, and maturing at intervals during the following decade. Similar agreements were made with Belgian, British, Swiss, Dutch, Spanish and Italian holders of blocked pesos.

The adoption of exchange control by Argentina was an emergency measure. While no termination of control is in sight, and the extension of the permit system just inaugurated constitutes in fact a tightening of trade and exchange control, the authorities declare they look forward to "monetary recovery of the principal countries, which will make it possible to do away with restrictions and return to the far more efficient working of a system of free exchange under a normal currency régime."

TREND TOWARD PERMANENCE OF CONTROL IN URUGUAY

Quite different from the Argentine point of view just quoted is the important statement on exchange control submitted by the Uruguayan Minister of Finance on August 10, 1938.[25] Reporting that the import quota of 1934 had made it possible to balance Uruguay's international payments without resort to foreign loans, and that bilateral commercial treaties and payment agreements now covered 75 per cent of Uruguay's foreign trade, the Finance Minister declared that, far from returning to a free economy, Uruguay must persevere in its policy and attain a "total compensation" basis, if possible. He

25. Summarized in U.S. Department of Commerce, *Latin American Financial Notes*, No. 251, September 14, 1938, p. 12.

declared that, in the same manner that receipts and expenditures are balanced in government budgets, there must be in commercial intercourse an adjustment of foreign exchange payments to the proceeds of the country's exports. This method had already been inaugurated for 1938, the probable production of foreign exchange and how it could be used for Uruguay's requirements having been estimated in advance. The hazards involved in such estimates by an agricultural country subject to weather conditions and industrial demand abroad can easily be appreciated.

Uruguay's exchange control system was established in 1932, and basically revised in 1934. Under this system, exporters must turn over all foreign exchange to the government. Four types of foreign exchange are available: official, controlled free, uncontrolled free and compensated. The first is not available for private imports, but is reserved for government use. "Controlled" exchange corresponds to "official" exchange in other countries and is granted to importers following application for an import permit, without which customs clearance is not possible. The government allots "controlled" and "compensated" exchange only as it is produced by exports of native commodities. Bilateral trade considerations determine the allotments, to the detriment of American export interests, because the United States imports little from Uruguay. "Compensated" exchange in Uruguay has no relation to compensation agreements such as those promoted by Germany with various Latin American countries. It refers rather to an exchange subsidy to exporters of such products as meats and linseed. The former obtain a premium of 20 per cent above the "controlled free" rate, and the latter 8 per cent.

Since October 1937 the United States has bought very little from Uruguay.[26] American goods therefore are allotted no regular exchange quota, although a small amount of "compensated" and "controlled free" exchange has been granted for importation from the United States of certain necessary items, such as agricultural machinery, lumber and resin.

Uruguay has an exchange stabilization fund, amounting in August 1938 to over 23,000,000 pesos in gold and foreign currencies. These reserves were then to be "defended and increased," according to the Finance Minister who, in addition to advocating limitation of imports to the amount of funds raised by exports, urged application of the import licensing system to the end that imports of articles which can be produced domestically might be eliminated.

The importance of exchange control in Uruguay's foreign trade may be gauged by "conservative" official estimates for 1938. Of 15,200,000 pesos estimated to come from free-exchange operations, about 70 per cent is needed to pay for imports authorized and paid for (in pesos) prior to June 30, 1938. Free exchange was to be authorized during the remainder of 1938 only for goods impossible to "compensate" by exports from Uruguay.

The Uruguayan control system is obviously not simple. To encourage exports of specific products, for example, a large degree of freedom to dispose of foreign exchange is sometimes granted. In the summer of 1938 exporters of pork products and wheat were authorized to sell 80 per cent of their exchange to the banks at the "free market" rate. In October 1938 permits were granted for the importation of certain United States goods that had been shipped to Uruguay prior to May 11 without previous permit. For this purpose the foreign-exchange proceeds of certain Uruguayan exports were set aside, with the exchange rate fixed at 20 per cent above the "official" rate when the exports referred to consisted of canned meat, and 8 per cent when of linseed. The exchange was handled through the banks, and this particular arrangement required no direct relations between the American export firms and the Uruguayan exporters.

Not only do individual countries receive preferred or non-preferred treatment, but so do individual import articles, like agricultural implements in the case of the United States. As in most other controlled-exchange countries, the Uruguayan control in practice differentiates between importing firms. A decree of July 9, 1938 specifically recognized preference to long-established firms.

The rigidity of trade control in Uruguay is indicated by a decree of May 13, 1938, to the effect that the proceeds of merchandise shipped to Uruguay on consignment from countries without import quota allotments must remain on deposit in the Bank of the Republic for five years, subject to earlier release at the option of the Bank.

EXCHANGE CONTROL AND TRADE COMPETITION

The important influence of European conditions and trade practices on Latin America has already been noted. The German system of controlled-exchange foreign trading—which shows how a strong industrial state can, through special trade

26. General imports of merchandise from Uruguay during the first ten months of 1938 totaled $4,106,000, as compared with $13,234,000 in the corresponding period of 1937. U.S. Department of Commerce, release 1703-A, December 6, 1938. Cf. "U.S. Trade in Uruguay Declines; She Buys Only Where She Sells," *New York Times,* December 19, 1938.

arrangements, control the trade of weaker countries—is of particular interest to American exporters of manufactured products, who find themselves in competition not merely with individual foreign manufacturers, but with a powerful foreign government.

As in other parts of the world, Nazi methods of trading have left their mark on Latin America. These methods, originally developed to obtain sorely needed foreign exchange, are now used for political ends as well.[26a] The system of blocked and special marks, combined with direct subsidies to German exporters, constitutes a scheme under which Germany's competitive ability in trade has been financed at the expense partly of the German people, and partly of Germany's foreign customers. The use of ordinary blocked balances in Germany's export trade has now almost entirely ceased. Instead ASKI, or compensation, marks are being used in Latin America. Blocked marks were simply depreciated currency made available to any one for certain authorized purposes, but without distinction as to the nationality of the user or the commodities for which used. ASKI marks are balances which can be expended only within Germany for certain specified commodities. Since the German government controls commodity imports and exports, the value of ASKI marks in terms of foreign currency varies according to the nationality of the foreign exporter to whom they are paid. Thus, when used in the purchase of Latin American products, these ASKI mark balances may be spent only by the particular Latin American nationals to whom they have been issued, and only for German goods to be imported into the country concerned. By this device, coupled with export subsidies, Germany has made important gains in the Latin American market. In Chile and some other countries the use of depreciated ASKI marks has brought German goods into competition even with domestic products.[27]

With the use of ASKI marks, and clearing agreements, Germany has been very successful in acquiring needed imports and cementing its commercial relations with various countries. While the system has been most effectively applied in the Balkans, Germany has also put it to good use in Latin America. At times it has not hesitated to "buy"—with ASKI marks—from various "clearing" countries more of their products than it has needed and, on receipt of the commodities, to sell the surplus elsewhere in competition with those same countries, which meanwhile find themselves under the necessity of using their frozen German balances to purchase German products they in turn do not need. For example, by the ASKI mark device Germany bought large quantities of Colombian coffee—a special type of bean—and resold it elsewhere in competition with Colombian coffee exporters. Similar German resale of Argentine and Brazilian commodities has been reported.[28] Not all Germany's trade gains in Latin America are by any means due to this type of trading. But these examples illustrate the difficulties which Latin American countries, like those of the Balkans, may encounter in their bilateral arrangements with Germany.

Another feature of the German trade drive has been the sale to Latin American countries of obsolete airplanes, tanks, machine guns and similar products. Chile and Peru have acquired this type of equipment, for which they must continue to purchase parts and replacements from Germany.[29] This business has its political aspects, too, since the availability of necessary replacements and parts depends on the maintenance of good relations with Germany—thus, in turn, working in favor of broader exchange clearing agreements with Germany.

With the help of compensated exchange agreements, Germany has made great strides in recovering and exceeding its pre-war position in Latin American trade. To a large extent Germany's gains in Latin American markets have been at the expense not of the United States, which for the most part is holding its own, but of Britain. A recent analysis of British-German trade competition in 1929, 1932 and 1937 shows that in Brazil, Chile, Peru and, to a lesser extent, Venezuela and Uru-

26a. Cf. "Germany's Trade Offensive," *The Economist* (London), November 5, 1938, pp. 262-67; also Howard J. Trueblood, "Trade Rivalries in Latin America," *Foreign Policy Reports*, September 15, 1937.

27. "Germany's Trade Offensive," cited, p. 262. Originally the ASKI mark was in effect merely book currency used to facilitate barter between individual firms in Germany and abroad. A Brazilian exporter of coffee, for example, had to take payment in the form of German typewriters and other manufactured goods which he had to resell in Brazil. Later it was made possible to sell or buy ASKI marks through banks, as is the case with other foreign exchange. For a description of the ASKI mark system, cf. H. Gerald Smith, "German Trade Competition in Latin America," *Commercial Pan-America*, October 1936.

28. Cf. Smith, "German Trade Competition in Latin America," cited; T. R. Ybarra, *New York Times*, December 1, 1938, p. 14; and U.S. Department of Commerce, *Latin American Financial Notes*, June 29, 1938, pp. 2-3. One result of the resale of commodities taken in barter by Germany has been an effort in some quarters to limit exports to Germany. A Nicaraguan decree curtailed the amount of coffee which might be shipped to Germany against ASKI marks. Brazil, in an exchange of notes with Germany, limited the amount of ASKI marks acceptable in payment for Brazilian products and for a considerable period during 1938 refused all trade on an ASKI mark basis. It now accepts ASKI marks for northern cotton and cacao.

29. Carleton Beals, *The Coming Struggle for Latin America* (Philadelphia, Lippincott, 1938), Chapter II.

guay, the British have suffered from German gains. Even in Argentina, the gain in imports from Germany has exceeded that in imports of British goods. In Brazil Germany has captured the British market for piece-goods, and ranks with the United States as a primary source of imports.

PERCENTAGE OF LATIN AMERICAN TRADE OBTAINED BY BRITAIN AND GERMANY SINCE 1929

		Trade with British			Trade with Germans and Austrians		
Country	*Item*	*1929*	*1932*	*1937*	*1929*	*1932*	*1937*
Argentina	Imports	17.6	20.4	18.9	11.5	9.7	10.4
	Exports	32.2	36.9	27.8	10.0	8.8	6.3
Brazil	Imports	19.2	19.2	12.1	12.7	9.0	23.9
	Exports	6.5	7.0	9.1	8.8	8.9	17.0
Venezuela	Imports	12.8	22.1	10.1*	9.2	12.4	15.0*
	Exports	1.2	0.9	3.7*	4.7	2.1	2.0*
Chile	Imports	17.7	12.9	10.9	15.5	14.7	26.1
	Exports	13.4	31.5	19.6	8.6	13.7	9.5
Colombia	Imports	14.4	19.4	18.7	14.4	15.4	13.5
	Exports	4.7	1.1	0.5	2.1	4.1	12.4
Peru	Imports	15.0	17.3	10.3	10.0	10.7	19.7
	Exports	18.3	36.1	22.7	6.1	7.2	13.7
Uruguay	Imports	16.6	19.4	16.8	10.0	10.5	11.3
	Exports	23.0	27.7	24.2	15.6	15.8	13.4

*1936. Source: *The Economist,* November 5, 1938, p. 264.

The fact that Britain, after Munich, undertook to counteract Germany's high-pressure trade methods has a distinct bearing on Latin America. Germany's most noteworthy successes have been achieved in exchange-control countries. To meet, for the first time, the competition of "a first-class industrial power . . . applying methods of discrimination, exclusion, controlled dumping and autocratic control" of foreign trade, Britain will have to increase its purchases of Balkan raw materials, including Rumanian wheat. While the amount of wheat purchased may not be large, it will necessarily affect the wheat exports of other producers like Argentina.[30] Another result of the German trade competition already evident is the discussion in Britain of further "payments agreements" involving the earmarking of sterling paid to suppliers of British imports for use in purchasing British goods, which impose another straightjacket on trade.[31]

"Compensated" trading through the ASKI mark, as operated in Latin America, has developed both advantages and disadvantages from the Latin American point of view. Among the former have been the possibility of obtaining German products, often at attractive prices, and of selling raw materials to Germany at a time when other markets were being gradually restricted.

Among the disadvantages has been the "sewing up" of considerable trade along bilateral lines, with consequent restriction on Latin American economic freedom to trade elsewhere. Another disadvantage has been the uncertainty caused by the shift of German purchases from one Latin American country to another and, in trade with single countries, from one commodity to another. German imports of coffee, for example, have been shifted from Guatemala, Costa Rica, El Salvador and Nicaragua to Colombia. In Brazil, during 1934-1935, cotton exports to Germany increased at the expense of coffee shipments.[32]

As an instrument of economic regimentation, exchange control is the antithesis of the official foreign trade policy practiced by the United States. It is designed to restrict foreign trade—which it does very effectively. Its ultimate results, moreover, are sometimes unexpected. In a comprehensive report on exchange control issued in 1938, the League of Nations found that, since the policy pursued is not identical in any two countries, the effects of exchange control are difficult to summarize. European experience reveals that exchange control generally tends to limit exports as well as imports.[33] Thus some countries have had to resort to export subsidies. When the country imposing exchange control is agricultural, the farmer suffers from the

30. So, too, will the export of subsidized American wheat to England, announced by the Federal Surplus Commodities Corporation on December 1, 1938.

31. "Germany's Trade Offensive," cited, p. 267; "British Trade War Threatens Reich," *New York Times,* December 1, 1938; "British Subsidies Against Reich Seen," *ibid.,* December 2, 1938; "British Push War on German Trade," *ibid.,* December 9, 1938.

32. *Commercial Pan-America,* October 1936, pp. 9-10.

33. The same conclusion was reached by Whittlesey ("Exchange Control," cited, p. 595), who found that exchange control had impeded rather than facilitated international equilibrium, tending to perpetuate a condition of disequilibrium.

tendency of such control to reduce exports, or to realign the domestic price structure in a manner unfavorable to the exporter. Since downward adjustment of the foreign-exchange value of the currency is either prohibited or only partially permitted, the export trade of such country is hampered.[34]

Exchange control and its counterpart, clearing agreements, have tended to canalize international trade between the countries employing it, while lessening their trade with free-exchange countries. Thus, a given Latin American country compelled to spend the whole of the proceeds of certain exports in Germany—since it has no free choice of markets—may find itself paying higher prices for German goods than it would have to pay for similar goods elsewhere if it were not obligated to spend the money in Germany.[35] If both the currencies are controlled, their relative real values are impossible to determine, and uncleared balances tend to accumulate. Raw-material and agricultural countries like those of Latin America, when trading under clearing agreements with industrial countries like Germany, are required to barter their products for highly manufactured goods; this, in turn, tends to hamper the development of local industries. If there is no clearing agreement and an agricultural country having exchange control attempts to export some of its products in the open market, its customers in industrial countries employing exchange control will bring pressure on their government to arrange a clearing agreement, thus causing the clearing system to spread.[36]

As exchange control becomes more rigid, it tends to involve an increasing degree of state interference in the economic life of the country adopting it. In allotting the foreign exchange collected from exporters, the government may determine: (1) to what purposes it shall be applied (e.g., commodity imports, debt service, tourist travel, shipping, etc.); (2) among what countries it shall be divided, and how; (3) for which import commodities foreign exchange shall be made available; and (4) to which companies and individuals it shall be allotted. This regimentation naturally fosters a growing and costly bureaucracy with a vested interest in self-perpetuation, discouragement of private enterprise, and substitution of production at state dictation.[37]

Exchange control, clearing agreements and other substitutes for free exchange have undoubtedly aided bilateral trade between Latin American countries and the so-called fascist nations; and some of these nations, in recent years have achieved large percentage increases in their trade with individual Latin American countries. But the danger of this competitive situation can be easily exaggerated. Italy, for example, supplies only 2.6 per cent of Latin America's imports, and is hardly to be classed as a serious competitor of the United States.[38] Japan, with 2.7 per cent, is in a similar position, although in individual countries Japanese competition is not to be ignored.[39] Much more important is the competition which the United States encounters on the part of Britain.

Other European countries also have their salesmen in Latin America. In 1937 Belgium sold 38 per cent more than Japan in Latin America, and 47 per cent more than Italy. Other non-fascist states, including several Latin American countries have been improving their position in the import trade of that region in recent years. Among these are The Netherlands, France, Canada, Sweden, Norway, the United Kingdom and British India, all of which have increased their trade with individual Latin American countries.[40] In the Latin American trade as a whole Germany has just about recovered its pre-war importance. The United States, by contrast, has strengthened its position. In 1913 it supplied only 25 per cent of Latin America's imports, while in 1937 it supplied 34 per cent. Today United States exports to Latin America exceed in value those of the United Kingdom, Germany, Japan and Italy combined.

American exporters naturally dislike to see any increase of business on the part of foreign competitors. They would prefer to boost their own Latin American sales. But if bilateral arrangements with European countries enable Latin America to export raw materials which the United States does not wish to buy, this country can hardly blame its southern neighbors for taking advantage of their opportunities. United States exporters cannot hope to monopolize the Latin American market unless Americans are willing to buy all that Latin America can produce.

34. League of Nations, *Report on Exchange Control*, cited, p. 32.

35. *Ibid.*, p. 34.

36. *Ibid.*

37. *Ibid.*, pp. 38-40.

38. Italy is reported to have sold quantities of "defense" supplies in Peru, El Salvador, Nicaragua and other countries. Cf. *New York Times*, December 1, 1938, p. 14; also Beals, *The Coming Struggle for Latin America*, cited.

39. In 1934-1935 Japan supplied 18 per cent of the imports of Haiti and Ecuador, countries with low per capita purchasing power. Cf. George Wythe, *Trade Relations between the American Republics*, Department of Commerce, Special Circular No. 393, June 25, 1938.

40. Cf. article by Herbert M. Bratter, *New York Herald Tribune*, December 27, 1938.

Despite the adoption of bilateral principles by various Latin American countries, the outlook for United States trade with Latin America is considered favorable. Dr. Dye, Director of the Bureau of Foreign and Domestic Commerce, recently declared: "The reason the United States has enjoyed and in my opinion will continue to enjoy a preponderance of the trade with Latin America, is because the interchange of products between this country and Latin America follows the natural course of trade and has been found to be the best means of satisfying the consumer wants of the peoples of this hemisphere. While artificial stimulation may for a limited period divert the natural course of trade to other countries, such artificial diversion will be found in the long run to be profitable neither for taxpayers nor for consumers—and hence untenable. With the continuance of unbroken peace in the Western Hemisphere, the citizens of this part of the world may and should plan for a larger exchange of commodities and services, which will increase their mutual well-being."[41]

An official comparison of the trade of leading industrial nations with the twenty Latin American republics shows that, in this export market as a whole, the United States in 1937 more than held its own, supplying slightly over one-third of Latin America's imports. The 1937 global figures for the twenty countries fail to show any gain that year by Germany or Japan, and only a very slight gain by Italy. Other industrial countries whose share of the Latin American market increased during 1937 were The Netherlands and Belgium.

PARTICIPATION OF LEADING INDUSTRIAL COUNTRIES IN THE TRADE OF THE TWENTY LATIN AMERICAN REPUBLICS IN 1936 AND 1937*
(*in per cent*)

Country of origin or destination	*Imports* 1936	*Imports* 1937	*Exports* 1936	*Exports* 1937
United States	31.5	34.3	32.9	31.1
Great Britain	13.5	12.6	19.2	17.7
Germany	15.4	15.3	8.0	8.7
Belgium	3.6	3.8	3.8	5.3
France	3.3	2.9	5.0	4.0
Japan	2.9	2.7	1.9	1.6
Italy	2.5	2.6	1.8	3.1
Netherlands	1.9	2.1	3.7	4.2
Canada	1.2	1.2	1.4	1.7

*U.S. Department of Commerce, *Commerce Reports*, November 19, 1938, p. 1027.

EFFORTS TO TERMINATE CONTROL UNSUCCESSFUL

Efforts to terminate exchange control through intergovernmental action in the Americas have thus far proved unproductive. The Montevideo conference in 1933 proposed that Chile convene a Pan-American financial conference to consider this and other problems, but none was called. At Buenos Aires in 1936 the Pan American Union was by resolution requested to consult the several American republics regarding a meeting of finance ministry and central bank delegates "to study and endeavor to bring about monetary stabilization and termination of the system of exchange control." In January 1938 the Union reported that the interest had been insufficient to warrant convening such a meeting. Of the fifteen governments which had replied by June 30, 1938, only six indicated that the time was opportune to hold such a conference,[42] while six others stated it was inopportune.[43] Evidently there are many who, like the Uruguayan Finance Minister, find controlled exchange a satisfactory system, or else do not see any easy path back to free exchange.

CONCLUSION

It would be impossible to measure the effects of exchange control. There are dozens of ways of depicting the changes in the nature and direction of Latin America's foreign trade, depending on the countries and the years selected for comparison. One commentator will point out that in 1937 United States trade with Central America was only 69 per cent of the 1929 value, whereas Germany's trade was 162 per cent; and that in the West Indies Japan's trade in 1937 was 1,869 per cent of 1929.[44] Another will show that the United States is more than holding its own, compared with 1934. Examination of United States trade with individual Latin American countries discloses no uniform trend. In 1937 the United States, in its merchandise trade with Argentina, had an import balance of $45,000,000, compared with an export balance averaging $70,000,000 in 1926-1930. With Venezuela, on the other hand, it had an export balance of $24,000,000 in 1937, compared with one of $2,300,000 in 1926-1930, and with an import balance during the depression years.[45]

41. Address of Dr. Alexander V. Dye before Convention of National Foreign Trade Council, New York City, November 2, 1938.

42. Bolivia, Cuba, the Dominican Republic, Ecuador, Mexico and Uruguay.

43. Brazil, Chile, Panama, Peru, the United States and Venezuela. Pan American Union, *Eighth International Conference of American States, Report on the Activities of the Pan American Union 1933-1938*, p. 15.

44. W. R. Castle, former Under-Secretary of State, before the Inter-American Center of George Washington University, December 7, 1938. The Chamber of Commerce of the United States, in *South America's Trade* (Washington, 1938), compares 1936 and 1937 statistics, and reports that the United States' share of South America's purchases abroad has declined in every instance.

45. Details by countries may be found in U.S. Department of Commerce, *Balance of International Payments of the United States in 1937*, p. 24.

In an address before the Missouri Valley Foreign Trade Conference at Kansas City on November 29, 1938, Mr. James C. Corliss of the Department of Commerce observed that, during the past three years of exchange control in Latin America, the United States' exports to the eleven controlled-exchange countries had increased. To these eleven countries as a group the United States exported more in 1936 than in 1935, more in 1937 than in 1936, and more in the first nine months of 1938 than in the corresponding period of 1937. According to Mr. Corliss, American exporters, despite the disadvantages occasioned by exchange control, seem to have found ways to expand their sales in Latin America.

If it is difficult to give the statistical picture of Latin America's trade concisely, it is also difficult to separate the influence of exchange control from other influences on business with Latin America—apart from the problem of differentiating between such control at the Latin American end, and similar control in Europe and elsewhere. It is not so much exchange control itself as the causes underlying it which account for much of the gains of certain European countries in Latin America's trade.

Generalizations regarding the effects of Latin American exchange control on United States exports are always subject to qualification, since many factors are at work, and it is rarely possible to attribute given trade changes to a single cause like exchange control. At times such various other factors may completely obscure or overshadow the effects of exchange control. This is illustrated by the large United States export trade with Argentina in 1937 and early 1938. Despite Argentina's strict allotment of "official" exchange for the purchase of American goods, during the period mentioned the United States did a better business than other countries. One reason for this is that meager crops stimulated American purchases of Argentine grain, thus tending to add to Argentina's supply of foreign exchange and, under Argentina's exchange policy, United States goods received better foreign-exchange treatment. Another reason, according to some students of the subject, is that the Argentine people prefer many American products to similar goods made elsewhere. A comparable increase in the importation of American goods, despite exchange control, has been noted in Chile. There the United States has been the leading source of imports during the past two years, notwithstanding the rigid policy of the Chilean government.

Exchange control, moreover, should be studied against the background of non-trade factors. In Argentina, marked influence on trade has been exerted by the investment of European and American capital during recent years. Money has gone into new branch plants and to some extent, as has been noted, the frozen commercial balances held by foreigners have been left invested in Argentina. In addition, some new money has been brought to Buenos Aires from Europe and the United States. Such capital movements have tended to increase Argentina's supply of "free market" exchange, thus making possible the purchase of more non-essentials than would otherwise have been the case.

In Chile, despite recent trends, American exporters have suffered from the rigid limitation of luxury imports. The authorities have effectively managed to restrict the purchase of non-essentials. Since the United States is an important supplier of automobiles, radios, films, and other luxury items, it is especially affected by the limited allotment of exchange for their purchase by Chilean importers. Luxuries imported into Chile, as well as traveling expenses abroad, may be paid for either out of the proceeds of placer-gold operations or, when such proceeds prove inadequate, out of surplus export-draft exchange, if any is available. In practice there is little if any such surplus, and hence importation of luxuries is very limited. The allotment of placer-gold exchange, moreover, is made on a country quota basis.[46]

If exchange controls were to be abolished in Latin America, other controls or barriers would doubtless take their place so long as basic economic and political conditions seemed to demand it.[47] Exchange control is only an implement of policy. A country may remove the implement without changing the policy. Had there been no exchange control, there certainly would have been exchange depreciation, which is also an effective barrier to imports, although it does not distinguish between essential commodities and luxuries.

In attempting to view the scene as a whole, one generalization as to exchange control seems possible. Exchange stringency in Latin America depends on prosperity or depression in the raw-material markets. Exchange control, with its corollaries, has been a development of the depression; improvement in world economic conditions tends to relax it. When industrial countries prosper, their

46. For details, cf. U.S. Department of Commerce, *Latin American Financial Notes*, October 29, 1936. For the texts of Chilean decrees concerning exchange control, cf. the monthly bulletins of the Banco Central de Chile, Santiago.

47. For the text of the latest Pan-American declaration in favor of reduction of "all existing types of restriction upon trade," etc., contained in the Trade Resolution of the Lima Conference, cf. *New York Times*, December 17, 1938.

demands for raw materials improve the position of non-industrial countries, as occurred from 1935 to 1937. When there is a business recession, as in the spring of 1937, the market for agricultural products and other raw materials falls away, and exchange control becomes intensified.

Since the Latin American countries are producers of raw materials, the principal means by which they could vary their income from exports would be production control, which is both difficult and unpopular. Hence there is little the producers can do on the export side in the face of shrinking overseas demand or declining export prices. Their imports, on the other hand, tend to be rigid in both amount and price. Debts owed to foreigners, unless defaulted, are also a fixed burden on the balance of payments and the currency. If export trade suffers, it is natural for the countries concerned to seek to control imports. For this purpose, import licensing and exchange control are much more flexible instruments than tariffs.[48]

The future of exchange control in Latin America is not easy to predict. Should improvement in world economic conditions continue, Latin America will profit by it and an important reason for exchange control will be removed. Should depression recur and again curtail Latin America's exports, intensification of present exchange and trade controls may be expected. Much depends on events in Europe. A general war abroad would vitally affect Latin America, and tend to increase its foreign exchange resources. It would also strengthen the demand for raw materials. But a war would at the same time accelerate foreign political efforts in Latin America, and thus, by way of reaction, perhaps intensify Latin American economic controls. Still another unpredictable factor is the economic policy of the United States toward Latin America. Credits to finance United States exports and stabilization loans to Latin American governments are being considered.[49] Such a program may raise this country's share of Latin America's imports, although not necessarily reducing the actual volume of its imports from other countries. It is doubtful whether such stabilization loans would suffice to remove exchange control in Latin American countries which have substantial exports to controlled-exchange countries in Europe. It may also be doubted whether special arrangements such as the Roca-Runciman agreement between Argentina and the United Kingdom would be thereby eliminated. Moreover, United States loans could be repaid only if the Latin American countries increased their exports to free-exchange countries.

What may be achieved by the liberal use of United States government funds in Latin America remains to be demonstrated.[50] The object of various current proposals is to weaken the influence of fascist European governments in Latin America.[51] To some extent their influence may be actually exaggerated. To the extent that it does exist and is based on cultural or linguistic ties with Latin America, stabilization loans or trade credits from the United States may fail to eliminate it. So long as Europe provides the market for an important part of Latin America's raw materials, Europe will continue to have economic influence in that region. It would be impossible for the United States to enjoy a monopoly of Latin American trade.

If the United States accepts the rôle of an already large creditor nation and, by its economic policy, encourages an unfavorable balance of merchandise trade, i.e., an excess of imports, the economic and exchange situation in Latin America and elsewhere may be materially improved. If, by a more liberal import tariff policy, it simultaneously encourages the outflow of gold rather than the continued inflow of gold and silver, the resultant stimulus to production and trade abroad may tend to benefit Latin America and to eliminate control of exchange. Any American efforts to reduce exchange control in Latin America must take into consideration the desire of Latin Americans for a more diversified economy. This desire, while undoubtedly stimulated by the effects of the depression, has long been in existence, and is unlikely to diminish in the future.

48. One obvious and regrettable effect of the exchange situation in Latin America has been a drastic reduction in the amount of travel to the United States from the countries lying to the south.

49. Cf. *New York Times*, December 13, 1938; "Treasury Would Aid America's Ties," *ibid.*, December 18, 1938; *New York Sun*, December 14, 1938; *New York Herald Tribune*, December 15, 1938.

50. On December 3, 1938 two officials of the State Department left for Uruguay and Argentina to obtain information of a technical nature relative to exchange control. The two officials were also on a mission for the United States Treasury.

51. The attitude of the Washington Administration was formulated in the message delivered to Congress by President Roosevelt on January 4, 1939.